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TOM WEATHERWAX

**SPRING
LEGISLATIVE
UPDATE**



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WHY YOU SHOULD READ THIS NEWSLETTER:

The recently completed legislative session and the looming special session set to start on May 14 have created a great deal of public interest. However, you may not have heard the complete story. Please take a moment to read the information within this publication before forming your own opinions about Indiana's current state of affairs.

Proposed Property Tax Relief	Senate passed version	House passed version
Residential Property Tax	25% average decrease	10% average decrease
Agricultural Property Tax	40% average decrease	12% average decrease
Business Property Tax	55% average decrease	24% average decrease

This chart shows simply how the Senate was working in the best interest of Hoosiers by insisting upon substantial property tax relief.

**SENATOR WEATHERWAX ACHIEVED A 99.5%
VOTING ATTENDANCE RECORD THIS YEAR!**

A NOTE ABOUT SPECIAL SESSION

Indiana, the "Crossroads State," is truly at a crossroads in terms of economic development, tax structuring, and the future of our families, businesses, and communities.

As the public is aware, the past Session of the General Assembly refused to pass tax restructuring and budget deficit reduction legislation. We favored the portions of this bill designed to reduce the impact of the Supreme Court-ordered reassessment on property taxes, create jobs for our hardworking residents, and encourage economic development. We could not support parts of the legislation that simply raised taxes to reduce the budget deficit, without planning for our future.

What the public does not know is that as last year's budget was being passed, my fellow Senate Republicans and I tried to alert the governor and the media to the serious economic difficulties threatening our state. We knew as early as January 2001 that the budget proposed by House Democrats would spend \$800 million more than the state would bring in.

The governor has now asked us to come back for a special session to try again. Despite recent cuts, the governor still says he needs to raise taxes to reduce the deficit caused by overspending.

If we do not break this cycle of overspending now, when will it stop?

Our state's revenue has been dropping over the past three budget years, while the spending of the O'Bannon administration has steadily increased. Indiana's total revenue in 2001 was down \$90.7 million from 2000. 2002 revenue is projected to be down \$92 million from 2001. Indiana has lost over 100,000 jobs in the past two years. Yet spending by the O'Bannon administration has not decreased to reflect this drop in revenue. Instead, spending has increased every year as the state's available funds have decreased.

I am committed to working to make our tax system fair and manageable. I voted for the Senate version of the tax-restructuring bill--a bill which did not raise overall taxes.

For the past eight years I have called for a reform in Indiana's property tax system, removing the burden of school funding from the backs of homeowners. Instead, I proposed funding schools through a revenue-neutral shift to sales and income taxes. I am the original author of legislation to eliminate the inventory tax, an unfair and out-dated tax that is causing businesses to leave Indiana for neighboring states with more progressive and balanced tax systems.

I am ready to get back to work and do what's right for Indiana families and businesses. It's high time we stop needless tax increases and instead develop a real plan for restructuring that will protect Indiana workers and families, reduce the burden on homeowners, and attract businesses to bring in new jobs to help our state's economic future.

The question is, will the governor join me in developing a tax-restructuring plan that works, or will he simply raise taxes to support irresponsible overspending? For the sake of Indiana's future, I think the choice is clear.



SENATOR TOM WEATHERWAX'S SPRING UPDATE

FORWARD INDIANA

The Senate version of House Bill 1004 would have improved Indiana's stagnant job market and prevented double-digit property tax increases for Hoosiers in 2003. The bill passed the Senate with my support.

The Senate version of HB 1004 did not include the revenue increases requested by Gov. Frank O'Bannon for the state budget, and consequently was rejected by the House of Representatives. As chief executive officer of the state, the governor can use the broad authority granted him by the Constitution to manage state finances through the current budget cycle. It's time for the Governor to cut-back and postpone expenses as Hoosiers around the state already have.

The primary goal of the legislation was to get the state economy moving by making Indiana a more attractive place for businesses to expand and create jobs. Indiana offers an ideal geographic location for business, but some potential employers are hesitant to locate here due to our out-dated tax structure and the uncertainty of property tax reassessment.

Taxes were shifted in the Senate version of HB 1004; however, the bottom line is that **no new revenue would have been generated for state government to spend**. The Senate version of House Bill 1004 was structured so that the individual taxpayer did not subsidize the savings for the business community, nor did the business community subsidize the savings for the homeowner. The bill did not pass but some of these issues will hopefully be looked at in the special session.

Taxes Reduced or Eliminated

- Corporate Supplemental Net Income Tax (SNIT), Bank Tax, Savings and Loan Tax and Production Credit Association Taxes are all eliminated.
- Research Expense Credit is increased from 5% to 10%.
- Expands earned income tax credits (EITC) by increasing eligible income from \$12,000 to \$15,000.
- No property tax add-back for individuals or business- existing favorable treatment is maintained.
- Homestead credit is increased to a permanent level of 10% (under existing law credit is set to go to 4% for 2003)

Property Tax Relief

- Property Tax levy for K012 general fund effectively eliminated thru payment of 100% PTR credit.
- Every residential homeowner receives a permanent \$25,000 homestead exemption.
- Business inventory and personal property taxes are reduced by 75% thru payment of refundable credit.
- Property tax replacement credits are increased from 20% to

39% and applied to all real property, utilities at 20%.

- New business personal property rule is eliminated, return to old rule.

•Average statewide property tax decreases; residential -24.8%, agriculture -41.8%, business -69.7%, utility-44.6%.

State and Local Spending Controls

- State spending cap applies to general fund and property tax replacement fund.
- Annual spending growth for state and annual AV growth for civil units tied to the 6-year moving average of Indiana Personal Income (Cap for State is set at 4% for fiscal year 2004-2005).

•Base year spending is set at fiscal year 2002 spending level.

•Provides an appeal process for civil units with high AV growth.

Replacement Revenue

- 100% of new revenue is used to pay for property tax relief.
- 1% sales tax -increased from 5% to 6% (effective 1/1/2003).
- Individual income tax increased from 3.4% to

3.6% (effective 1/1/2003)

- 0.75 % employer paid tax on payroll (effective 1/1/2003) (exempts public employees and 501c(3)).

•New Business Supplemental Tax, 1%, based on adjusted gross income (effective 1/1/2003)

•Establishes a new 8.5% corporate net income tax (effective 1/1/2003).

•Cigarette tax increased by \$.395 per pack to \$.55 (effective 7/1/02) no increase in other tobacco products.

•Riverboat admissions tax increased from \$3 to \$4 (effective 7/1/02).

•Wagering tax increased from 20% of AGR to 22.5% of AFR (effective 7/1/02).

This was not a deficit-reduction plan to bail the state out of the fiscal mess brought on by the slow economy, overspending, mismanagement, and the administration's unwillingness to cut or delay expenses. One of the main differences from the House version versus the Senate version of tax restructuring is a limit on future increases in state spending. The spending cap would help to prevent the kind of excessive spending which has caused the state's current budget squeeze.

This was an opportunity for Indiana to strengthen our economy by providing stable jobs and attracting new businesses and families to our state through lower property taxes. This was also an opportunity to provide our Hoosier children with the education they deserve and the jobs that will keep them in this state for years to come.



WEATHERWAX AUTHORS CLEAN COAL TECHNOLOGY BILL

Indiana has an abundance of coal, which allows 98 percent of all our electric energy to be generated from coal. But the state is facing a dilemma. New federal regulations looming over the horizon could hinder the way Indiana produces coal and possibly bring it to a halt. Indiana is one of 22 states affected by these new EPA regulations, which take effect in 2004, to reduce the amount of nitrogen oxide emitted into the air.

Senator Tom Weatherwax (R-Logansport), chairman of the Senate Energy and Economic Development Committee, took the lead in developing a bill that will combat this threat by providing incentives for clean coal technology and alternative energy sources.

Senate Bill 29, Clean Coal Technology, which has been signed by Governor O'Bannon, will:

•**Create a new Center for Coal Technology Research and empower the center to find ways to continue using Indiana coal in an environmentally and economically sound manner. The center will be a focal point for new clean coal technology projects.**

•**Expand current law to allow utilities that do not use Illinois Basin coal to recover pollution control equipment costs during construction. Current law limited recovery to just sulfur and nitrogen pollutant based reduction systems.**

•**Provide that wages paid by a utility to an independent contractor for construction of clean coal and energy projects are not excessive if the wages are those normally paid for work of the same type.**

•**Create new incentives for electric utilities to incorporate clean coal technologies on existing and new power plants that utilize Illinois Basin, which includes Indiana produced coal. It also provides incentives for renewable energy projects of any size.**

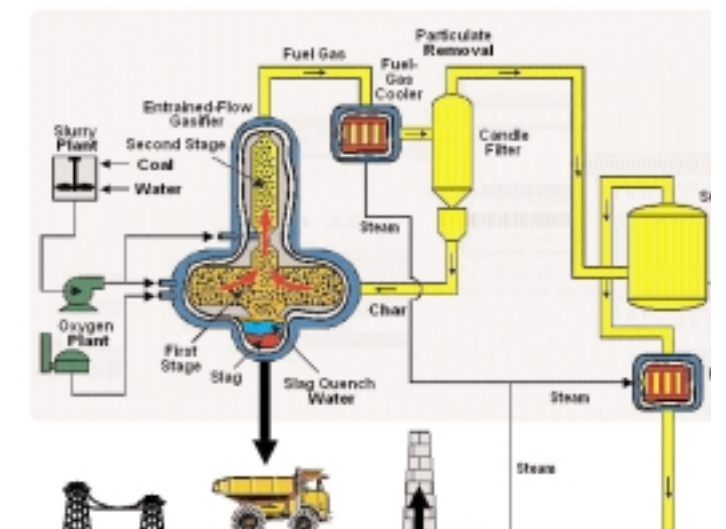
•**Require the Utility Regulatory Commission to encourage clean coal and renewable energy projects and allow the commission to grant up to a three percentage point increase in the rate of return that would otherwise be allowed.**

•**Grant the IURC the power to periodically review approved projects and revoke any incentives not complied with in the original order from the Commission.**

ment and energy security of Indiana by encouraging the construction of clean coal technology and the advancement of alternative energy sources," said Weatherwax. "I wrote this bill without being pressured from a number of groups including the coal and utility industries, the CAC or the IURC and it has helped in making a strong yet fair bill for everyone."

Clean coal technology takes advantage of coal gasification, which is a manufacturing process that converts coal into a clean gas that can be used as a fuel to generate power, Weatherwax said. During this process, impurities in the coal that could contribute to air and water pollution are removed prior to combustion in the gas turbine, resulting in air and water emissions that are comparable to those of natural gas-fired power plants.

According to Weatherwax, an example of these low emissions comes from the Wabash River Energy company, a Global Energy Technologies company, near Terre Haute, which has reduced the SO₂ emissions by 5500 tons per year, reduced the NO_x emissions by nearly 1200 tons per year and reduced the particulate emissions by 100 tons per year. All of these reductions came while producing nearly six times more power. It has been declared the cleanest coal fired generation-gasification plant in the entire United States



Example of Clean Coal Gasification Process

"Senate Bill 29 promotes the economic develop-